

## **CLARK COUNTY PUBLIC FACILITIES DISTRICT (PFD) PROCEEDINGS**

**JULY 7, 2003**

**CLARK COUNTY, WASHINGTON**

The Clark County Public Facilities District (PFD) convened in the Public Services Center, 1300 Franklin Street, Vancouver, Washington.

### **MEMBERS PRESENT**

Paul Winters, Debbie Abraham, Phil Parker, Brett Wilkerson, and Jerry Kolke

### **STAFF PRESENT**

Bill Barron, Kelly Sills, Doug Johnston, Bronson Potter, Paul Lewis, Peter Phillippi, and John Payne.

### **CALL TO ORDER**

Chair Winters called the meeting to order at 5:02 p.m.

### **ROLL CALL**

Kelly Sills called the roll and confirmed that a quorum was present.

### **PUBLIC COMMENT**

No public comment was presented.

### **APPROVAL OF MINUTES**

The minutes from June 2, 2003 were **moved** by Brett Wilkerson, **seconded** by Jerry Kolke, and **approved** as written.

### **UPDATE ON VANCOUVER PFD AND DOWNTOWN REDEVELOPMENT AUTHORITY**

Paul Lewis, City of Vancouver, provided a status briefing on the conference center/hotel (CC/H) project. He distributed an update sheet which included a list of primary agreement and negotiation items, as well as a summary projected timeline. Highlights from his presentation included the following:

- Land negotiations with representatives from the Columbian are in the process of being finalized.
- The Vancouver Downtown Redevelopment Authority (DRA) and PFD are considering purchase of the Webber Building.
- Faulkner intends to deliver the CC/H site plan to the city on 08JUL03.
- Design review meetings with Hilton have resulted in only minor changes to the design.
- Negotiations between Hilton, Faulkner, city PFD, and DRA are continuing. He clarified that the city has not yet officially entered into negotiations since documents are still being finalized.
- Hilton made a site visit last week. A formal decision is expected from the Hilton in mid-August.
- Orrick has successfully streamlined the respective financial responsibilities of participating agencies in the CC/H project. In particular, DRA's role has expanded.
- A technical services agreement between Hilton and Faulkner is not yet finalized.
- Paul indicated that city and Board approvals are anticipated in September and the bonds would close in late September.
- The current schedule has the land sale closing at the same time the bonds are sold using bond proceeds, but the land may be purchased earlier.
- A joint city PFD/DRA meeting will be held on 10JUL03 and primary discussion items will include land purchase issues and hospitality consultant agreement.

- Brad Hutton will host a site visit of the Portland downtown Hilton Hotel, tentatively scheduled for the afternoon of 04AUG03. All county PFD members are invited to participate in that tour.
- The city has put an extensive list of questions and answers on its web site to improve public communications and is further developing its comprehensive communications plan for the CC/H project.
- Paul referenced some previously distributed information about other Faulkner-Hilton projects around the country.
- Paul confirmed that DRA ownership of the hotel will make it exempt from property taxes.
- Paul indicated that the city will make every effort to move forward with the CC/H project, but in the event it can't start on time then the city recognizes its good faith support for the Fairgrounds project.
- \$1.8 million has been spent so far with a large share of that spent on land acquisitions.

#### **UPDATE ON CONFERENCE CENTER/HOTEL FINANCES**

Peter Phillippi, US Bancorp Piper Jaffray, indicated that the legal structure between the participating agencies has been simplified such that DRA will issue the debt as before, and it will own the property, enter into agreements with Hilton and Faulkner, and hold the trust indenture. The project will not be a general fund obligation of the city. He indicated his expectation that there will be two AAA bond series, "A" and "B" respectively. "A" will be in the estimated amount of \$62.5 million, and "B" will be in the estimated amount of \$3.5 million. Construction costs represent \$49.9 million, debt service reserve \$4 million, capital reserve \$1.5 million, pre-opening and other technical services expenses \$1.6 million, and a "lock box" fund (for day-to-day cash flow purposes) of \$500,000. Peter emphasized that current interest rates are very attractive and he is building financial models at just over 5% interest.

Peter has also developed both insured and uninsured models. The insured model includes two reserve funds: (1) a "cash trap" fund supported by cash flows from the facility and available for a multitude of purposes, and (2) a "sinking fund" which creates the capability to call the debt early. Peter indicated that the uninsured model has a higher interest rate, a 30-year amortization, and a smaller sinking fund.

Peter indicated that changes made to the tax code in 1997 made these kinds of insured bond financing packages more palatable to investors. Insured bonds help reduce the interest rate on a single series of debt. In comparing the two models, David Findlay indicated that there are some higher up-front costs associated with the insured model, and Peter indicated that the uninsured model has the higher long-term/debt costs due to the higher interest rates. Peter added that Excel and Radian are showing some interest in insuring the CC/H project bonds.

Chair Winters asked Peter to discuss the hotel rate predictions built into the insured financial model, and Brett Wilkerson specifically called into question the rapid growth in daily average room rates and occupancy rates. Peter indicated that he was not an expert in hotel market analysis and he was relying on the expertise provided by HVS in providing those estimates. He added that HVS has a national reputation for quality hotel market analysis and high credibility in the industry.

Chair Winters indicated that the Board is not entirely comfortable with the HVS market study. He indicated that David Findlay would be assigned by the PFD to further analyze, understand, and validate the HVS study. Brett Wilkerson indicated that the projected occupancy rates and rate growth appear to be higher than the market as he understands it. In particular, annual growth rates of 10% and ongoing occupancy beyond 2007 of 74% do not appear realistic and does not factor in the current economic downturn from his perspective as general manager of one of Clark County's largest hotels. Kelly Sills asked if historical market performance in Clark County could be used as an accurate predictor of performance for a new hotel collocated with a new conference center, to which Brett indicated that HVS'

comparative analysis was not based on the local market but rather on other hotel/conference center projects around the country. Teresa Doran (Holiday Inn Express) indicated that the HVS study placed the government per-diem rate at \$91 per night when it is actually closer to \$55.

Peter acknowledged that there is risk in this project, as with any project. Most of the construction risk is being shifted to Faulkner, and Hilton is bearing a chunk of the operating risk. Risk to the city and county PFDs is a matter of payback probability. When asked to describe that payback possibility, Peter indicated that it would not be financially prudent for the PFDs to make spending plans by assuming the payback money is guaranteed, but that potential should remain as a recognized possibility. Peter indicated that there is some risk to the city by backing the sales tax credit and lodging tax revenues. Peter also indicated that his focus is on maximizing Faulkner's and Hilton's investment by backing the series "B" bonds.

Chair Winters asked about the value of the CC/H assets at the end of thirty years and whether that value had been added to the financial models. Peter responded that those values were not incorporated into the models, but the value inherent in those assets would certainly accrue to the greater community.

Debbie Abraham requested a scenario to show the room occupancy rates and prices necessary to achieve the break-even point for PFD payback. Both Peter and Paul indicated that they would run that model and report back to the PFD.

Peter spoke to the importance of location in siting a hotel and agreed with Brett Wilkerson that there will be a definite advantage for the proposed hotel, based on its proximity, vis-à-vis business generated by the conference center.

Peter indicated that a Hilton pull-out from the project would defer the planned September bond closing. This eventuality would also cause a complete reevaluation of the CC/H project's financial viability. He added that Hilton will be conducting its own market analysis, but potential investors will mostly rely on the independent analysis by HVS. He will also be providing some follow-up information to the Board regarding sites visited by HVS in developing its study as well as governing laws for comparable properties in other states.

#### **REVIEW OF CONFERENCE CENTER/HOTEL FINANCES**

David Findlay, FCSG, indicated that he will speak with Paul Lewis and Peter Phillippi to better ascertain how the CC/H project financial obligations will be legally met and to further understand cash flows. He has also asked for some backup information regarding construction of part of the project; that is, without a hotel. He indicated that Paul and he would be working on scenarios that might evolve from the non-hotel project.

Chair Winters asked David to clarify whether he would be analyzing the methodology for dividing the CC/H project costs between the conference center and the hotel, to which David affirmed he would do that on behalf of the Board.

#### **STATUS OF THE FAIRGROUNDS PROJECT**

Doug Johnston, General Services Director for Clark County, distributed a summary of the Fairgrounds Master Plan for review by the Board. Referring to the plan, Doug highlighted the following:

- The plan is in two sections: (1) the Wineberg sports park, and (2) the Fairgrounds operational plan.
- The sports park complex is still under final development under the leadership of the Parks department. Parks should have the plan completed by the end of October. Doug noted that the

location of the sports complex will be west of the Amphitheater and it will include a neighborhood park.

- A survey of existing facilities is currently being prepared.
- A 100,000 square-foot exhibition center, at a cost of approximately \$10.8 million, is the focal point of the Fairgrounds project. The exhibition center is a relatively simple construction project compared to an office building or similar structure.
- Of the 40+ buildings currently occupying the Fairgrounds property, only three would be retained.
- Doug assured the Board that Master Plan construction can begin by 01JAN03.
- The Facilities Committee will make the architectural decisions for the fairgrounds project.
- Phase I cost is estimated at \$21 million, but financing is unknown at this time so it will probably focus initially on just the exhibition building and then add other improvements over time.
- Doug indicated that the exhibition building could accommodate sit-down meals/meetings, but they would have to be catered because the facility itself does not have adequate kitchen facilities for larger groups.
- The Board of County Commissioners has reviewed the Master Plan and it has been reviewed by the Fair Board, Facilities Committee, civic groups, neighborhood associations, and the general public. Doug characterized the collective reaction of these groups to the Master Plan as uniformly positive.
- The Board of County Commissioners cannot adopt the entire plan until the Parks piece can be finalized and integrated into it.
- The county is currently issuing a RFP for architectural services on the Fairground operations project.

In response to an inquiry, Bronson Potter indicated that it is a question of interest whether the inclusion of a sports complex, combined with the exhibition center, can qualify for the \$10 million threshold. Again in response to an inquiry, Bronson opined that it is legally feasible for the county PFD to cap the amount of sales tax credit applied to one project, such as CC/H, in order to reserve the excess for another project, such as the Fairgrounds.

#### **APPROVAL OF CLAIMS**

Bronson Potter distributed claims in the total amount of \$27,583.29 for legal, financial, and insurance expenditures which have accumulated since January 2003. The claims were **moved** for approval by Phil Parker, **seconded** by Brett Wilkerson, and **approved**.

#### **LIST OF QUESTIONS FOR CITY PFD/DRA**

Kelly Sills indicated that the City of Vancouver and its PFD/DRA representatives made a verbal request on 12JUN03 that the county PFD develop a list of questions it may have for the city PFD/DRA. Those bodies felt that such a list of questions would be a more organized method for responding to county PFD concerns and to help increase understanding between the agencies. Phil Parker suggested that Board members develop their questions on their own, forward same to Kelly so he could compile and relay to the Board for a final review, and then Kelly could submit the full list of questions to the city. Bronson indicated the suggested procedure would be in keeping with open meeting laws. Chair Winters directed that the Board would follow Phil's suggested procedure and indicated questions should be sent to Kelly no later than Thursday, 10JUL03, so that the final list could be forwarded to the city no later than Friday, 11JUL03.

#### **GOOD OF THE ORDER**

1. Bronson Potter distributed a copy of a letter sent from Narda Pierce, Solicitor General, State Attorney General's Office, to Shawn Newman, Attorney at Law, regarding the Vancouver Public Facilities District.

2. The Board discussed scheduling conflicts associated with the next regularly scheduled meeting date of 04AUG03. **Moved** by Phil Parker, **seconded** by Jerry Kolke, and **approved** that the next meeting of the county PFD would be on Tuesday, 12AUG03, 5:00 p.m. in the Public Services Center instead of the regularly scheduled date of 04AUG03.
3. Kelly Sills suggested that the Board should develop information for public outreach purposes. He exemplified the city's Q&A and renewed communications plan, but noted that it was premature for the Board to develop those kinds of products prior to project selection. However, the Board could initially distribute an informational fact sheet about the founding, purpose, and other basic information about the PFD. Kelly also asked that a representative or subcommittee from the Board be appointed as a public outreach liaison/reviewer. Chair Winters appointed Debbie Abraham as a reviewer and approver for public outreach information developed on behalf of the Board.
4. Debbie Abraham asked if the Board had any follow-up questions regarding her 12JUN03 meeting with the city, city PFD/DRA, and CC/H project representatives. No follow-up questions were asked. Debbie indicated that Tami Kihs will be coordinating the city's open houses to discuss the CC/H project that were a primary outcome of that meeting.
5. Brett Wilkerson indicated that a county PFD Board member should be present at all city PFD/DRA meetings. He expressed his concern that minutes from the last city PFD/DRA meeting indicated Paul Lewis was representing the county PFD and spoke on its behalf. In order to ensure that in the future only a county PFD Board member make such presentations to the city PFD/DRA, Brett suggested that a Board member be present at the city PFD/DRA meetings for that purpose. Chair Winters agreed with this intent and indicated that he would provide the updates to the city PFD/DRA or appoint another board member in his absence. Kelly Sills was directed to request the city PFD/DRA to regularly schedule a county PFD update on their agenda.
6. Debbie Abraham indicated that a meeting regarding the sports complex at the Fairgrounds would be held on 17JUL03. The meeting will be held at the Chinook Elementary School on 134<sup>th</sup>.

## **ADJOURNMENT**

**Motion** to adjourn by Phil Parker, **seconded** by Brett Wilkerson, and **approved**. The Board adjourned its meeting at 7:48 p.m.

The next meeting of the PFD Board will be at 5:00 p.m. on August 12, 2003.